Federal Relief Funds: Policy Implications for Retirement

September 14, 2021

Key Takeaways

1. The federal government enacted a significant stimulus package in 2021, including $195.3 Billion in relief money for states.
2. This appropriation includes two major restrictions on the use of state relief money: states may not use funds from the Act to lower taxes or to make extraordinary deposits to pension funds.
3. The federal legislation also includes several provisions related to retirement, including significant financial assistance to deeply underfunded multiemployer pension plans. The Utah Retirement Systems (URS) administers governmental retirement systems and plans, so URS and its stakeholders are not affected by provisions for multiemployer pension plans maintained as part of a collective bargaining agreement nor do they participate in the Multiemployer Insurance Program of the Pension Benefit Guaranty Corporation (PBGC).
4. The appropriation of this federal state relief money presents the State with policy and financial options on how to expend this additional revenue. To that end, the interpretation and compliance with the federal restriction on the deposit of state relief money into any pension fund is for the State to manage.

Summary of the Federal Legislation

On March 11, 2021, President Biden signed H. R. 1319, the American Rescue Plan Act of 2021 ("Act") into law. The Act established another round of major stimulus for the American economy.
The Act provides funding for several specific programs, including the Supplemental Nutrition Assistance Program (SNAP, formerly known as the food stamp program); schools and universities; childcare and elder care; COVID-19 vaccinations, testing, treatment, and prevention; mental health and substance-use disorder services; emergency rental assistance, homeowner assistance, and other housing programs; payments to state, local, tribal, and territorial governments for economic relief; certain retirement plans; and small business assistance, including specific programs for restaurants and live venues.

Among other things, the Act is intended to provide financial support to families struggling because of the pandemic, including a third round of stimulus checks for qualifying individuals and tax cuts for those within certain income limits.

The Act also includes temporary COBRA and Affordable Care Act subsidies intended to help people maintain health insurance coverage during the pandemic.

In addition to this Act's stimulus package, there are prior federal COVID relief funds (i.e., CARES Act) that may remain unspent and available for relief.

The following is a brief overview of some portions of the Act that present retirement-related policy implications.

State Relief Money and Restrictions

Individual states will receive a total of $195.3 Billion in flexible relief funds to be spent on any health care costs or to offset any negative economic effects related to COVID-19. In addition, states can invest the funds to improve drinking water quality, support wastewater and stormwater treatment capacity, and expand broadband access. All funds need to be obligated or committed by December 31, 2024, and spent by the last day of 2026.
States have often used their stimulus money to assist local government, but this Act also included $154.7 billion to other governments such as cities, counties, tribes, and territories.

The Act includes two major restrictions on the use of state relief money: states may not use funds from the Act to lower taxes or to make extraordinary deposits to pension funds. The following is the specific federal statutory language for these restrictions:

> ''(2) FURTHER RESTRICTION ON USE OF FUNDS.—
> (A) IN GENERAL.—A State or territory shall not use the funds provided under this section or transferred pursuant to section 603(c)(4) to either directly or indirectly offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase.
> (B) PENSION FUNDS.—No State or territory may use funds made available under this section for deposit into any pension fund."

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Retirement Provisions

The Act also includes several provisions related to retirement, including funding rule changes for single-employer and multiemployer pension plans, significant financial assistance to deeply underfunded multiemployer pension plans, and changes to the executive compensation rules.

1. *Single-Employer Pension Funding Changes*

   The Act provides that, in the 2022 plan year, the minimum funding requirements for single-employer pension plans may be calculated by re-amortizing the entire unfunded liability over 15 years, often referred to as a "fresh start". The Act extends and enhances previous interest rate stabilization provisions that would start to be phased-out in 2021 under current law.

2. *Multiemployer Pension Provisions*

   Multiemployer pension plans are not required to update their funding improvement or rehabilitation plans for this plan year to allow a delay before plans must take steps to offset losses incurred during the COVID-19 pandemic. Plans in critical or endangered status may also elect to extend their funding improvement or rehabilitation plans by 5 years, allowing additional time for them to achieve their funding targets.

3. *Financial Assistance for Certain Multiemployer Pension Plans*
The Act allows certain financially troubled multiemployer pension plans to apply for special financial assistance. The Pension Benefit Guaranty Corporation (PBGC) created a Special Financial Assistance (SFA) Program. This program addresses the immediate financial crisis threatening the retirement security of over three million American workers, retirees, and their families. The program will provide an estimated $94 Billion in assistance to more than 200 eligible plans that are severely underfunded.

4. *Multiemployer PBGC Premiums*
The Act addresses the solvency of PBGC's Multiemployer Insurance Program, which was projected to become insolvent in 2026, by increasing the PBGC premium rate for multiemployer pension plans to $52 per participant, effective for plan years beginning after December 31, 2030. This premium rate is indexed for inflation for years after 2031.

5. *Executive Compensation*
For taxable years beginning after 2026, the Act expands the number of employees subject to Internal Revenue Code Section 162(m). Under current law, publicly traded employers are prohibited from taking a deduction for executive compensation in excess of $1 million paid to the chief executive officer, chief financial officer, and the next three highest compensated employees (each a "Covered Employee"). The Act adds five additional employees to the list, expanding to eight the number of the highest compensated employees beyond the CEO and CFO for whom certain compensation cannot be deducted.

Applicability for URS

URS administers governmental retirement systems and plans, so the "Retirement Provisions" summarized above do not affect URS and its stakeholders.

Some employers and members have specifically asked if URS and its participating employers would be eligible to apply for the $94 Billion in special financial assistance for multiemployer pension plans. PBGC multiemployer pension plans are sponsored by more than one employer and are maintained as part of a collective bargaining agreement. URS and its participating employers do not participate in the PBGC's Multiemployer Insurance Program, so they are not eligible for this special financial assistance.